ARCONTECH

Arcontech Group PLC

Report and financial statements for the year ended 30 June 2012

REGISTERED NUMBER: 04062416 (England and Wales)

Arcontech Group PLC

Year ended 30 June 2012

Contents

	Page
Chairman's Statement	1
Chief Executive's Review	2
Company Information	3
Board of Directors	4
Directors' Report	5 - 7
Statement of Directors' Responsibilities	8
Independent Auditor's Report	9-10
Group Income Statement	11
Statement of Changes in Equity	12
Balance Sheets	13
Group Cash Flow Statement	14
Company Cash Flow Statement	15
Notes to the Financial Statements	16 – 38
Notice of Annual General Meeting	39 - 41

Chairman's Statement

Arcontech Group plc ("Arcontech") has achieved notable progress during the year ended 30 June 2012. The business is now focused on the CityVision suite of software products with particular emphasis on Multi Vendor Contribution Systems (" MVCS"), Excelerator, our real time Excel product and CityVision Cache.

We believe that the opportunities for our products are at a level not previously experienced by the group. We do, however, have to convert these opportunities into sales. Whilst this has proved a little frustrating, with decision-making and proof of concept trials taking longer, we have secured new contracts of almost £1 million over three years. As at 30 June 2012 the contracted annual recurring licence fees amounted to £1,589,110 (2011: £1,538,216) representing approximately 76% of our annual costs (2011: 73%).

Turnover for the year increased by 14% to £1,463,530 (2011: £1,287,409). The underlying increase was 28% after eliminating revenue from the loss-making AXE product, which we stopped actively marketing during the year. The operating loss for the year was £595,147 (2011: £817,855). During the year we continued to invest significantly in product development and improvement. These costs are written off as they are incurred.

Financing

As at 30 June 2012 Arcontech had cash balances of £746,675 (2011: £841,204) The reduction in our cash resources is due to the operating loss incurred during the year, arising primarily due to our continued investment in product development together with lengthening payment periods from clients. Based upon the level of our sales prospects and our continued tight control of costs the Board believes that Arcontech has sufficient financial resources to see the business through to profitability.

Employees

As in previous years I should like to thank our employees for their continued hard work, dedication and support over the last twelve months. Working in a small business often requires employees to be extremely flexible and understanding, this is greatly appreciated.

Outlook

With the level of sales prospects that Arcontech presently has we are hopeful of making significant progress towards breakeven in the coming year. It remains, however, difficult to determine the precise timing of future contracts, as sales cycles remain protracted. To help improve our chances of success we are looking to increase our sales resource in the coming months.

Richard Last
Chairman

2 August 2012

Chief Executive's Review

I am pleased with the progress made this year with the enhancement and rationalisation of the CityVision product suite. CityVision now addresses several areas of current demand in a more appropriate and immediately deployable manner and we are seeing strong interest, evidenced by increased sales, from both new and existing clients.

The uptake of the redesigned 'Excelerator' product, which provides a vendor-neutral means of publishing and receiving real-time market data into Microsoft Excel, has increased significantly. Excelerator's ability to integrate with, and provide a migration path between, Thomson Reuters and Bloomberg is a compelling value proposition amongst investment banks eager to reduce costs and reduce lock-in to particular vendors.

CityVision Cache, a new product development this year, gives customers increased choice of technology and is also attracting strong interest, with recent new sales.

New contracts have been longer in negotiation than I would have liked, impairing our revenue growth. Nonetheless, the number of ongoing and successful product evaluations and prospects at or close to contract stage support optimism over forward revenues.

Interest from outside the UK and, in particular, new sales activity in the Nordic regions continues and we have seen several of the new contracts anticipated in last year's review. We have further refined our offerings for integration with Thomson Reuters and Bloomberg and the new product developments mentioned last year are now deployed with Tier 1 and Tier 2 investments banks, facilitating considerable cost reductions and future flexibility.

Increased sales and marketing activity, resulting in significant product interest, has demanded additional pre and post sales resource to support trials and product roll-out. We have recruited in response to this demand and our expanded, experienced support team is well equipped to deal with forecast new business.

Some notable points for the year have been:

- Successful live deployment of CityVision in multiple regions
- New contracts for Excelerator, MVCS and CityVision Cache
- Upgrade of several clients to the enhanced product set
- 100% retention of existing CityVision clients
- Increase in contracted recurring revenues of approximately £1 million

Our status as an independent software supplier, with two-way interfaces between the popular vendors, positions us well to take advantage of the prevailing demand for customer choice of data vendor and delivery technology.

I would like to thank the board, our staff and particularly our new and existing clients for their continued support and look forward to further successes in the coming year.

Andrew Miller
Chief Executive

2 August 2012

Company Information

Directors	Richard Last *(Chairman and Non-Executive Director)**+ Andrew Miller *(Chief Executive)*+ Michael Levy *(Group Finance Director)* Louise Barton *(Non-Executive Director)**+
Secretary and Registered Office	Michael Levy 8th Floor Finsbury Tower 103-105 Bunhill Row London EC1Y 8LZ
Nominated Adviser and Broker	Northland Capital Partners Limited 60 Gresham Street London EC2V 7BB
Registered Number	4062416
Solicitors	TLT LLP One Redcliff Street Bristol BS1 6TP
Auditors	Nexia Smith & Williamson Statutory Auditor Chartered Accountants Portwall Place Portwall Lane Bristol BS1 6NA
Registrars	Capita IRG Plc The Registry 34 Beckenham Road Beckenham Kent BR3 4TU
Principal Bankers	Nat West Bank Plc 94 Moorgate London EC2M 6UR
Company website	www.arcontech.com

* Members of the Remuneration Committee
+ Members of the Audit Committee

Board of Directors

Directors - Executive

Andrew Miller (54)

Andrew was appointed Chief Technology Officer in September 2007 and subsequently Chief Executive in December 2007. Andrew has been Managing Director of Arcontech Limited since 2000. He conceived the CityVision product strategy in response to market demand for fast, reliable, cost-effective alternatives. He is a vocal advocate of technology to reduce costs and increase quality of real-time market data and has been instrumental in turning Arcontech Limited into an award-winning technology provider in the City with a blue-chip client list.

Michael Levy (50)

Michael was appointed Group Finance Director in May 2001. In addition he operates his own Chartered Accountants practice, Michael Levy & Co. Michael obtained a BA (Econ) in Economics and Social Studies from the University of Manchester in 1983. He qualified as a Chartered Accountant in 1986 with BDO Stoy Hayward and is a Fellow of The Institute of Chartered Accountants in England & Wales.

Directors – Non-Executive

Richard Last (55)

Richard was appointed Chairman and Non-Executive Director in February 2007. He has over 18 years senior experience in information technology, having worked at board level for a number of publicly quoted and private companies operating in this sector. Currently, he is Chairman of British Smaller Companies VCT 2 plc, a fully listed venture capital trust. In addition, Richard is Chairman of CSE Global UK Limited, a subsidiary of a Singapore listed company and CSE Global Limited, of which he is also a Non-Executive Director. Richard also sits on the Boards of Corero plc, an AIM listed IT solutions provider and Lighthouse Group plc, an AIM listed financial services group, as well as a number of private businesses.

Louise Barton (62)

Louise was appointed Non-Executive Director in February 2007. She has more than 27 years experience as an investment analyst. Louise's background embraces a high profile City career, including having held senior positions with fund management group Prudential Portfolio Managers and stockbrokers CCF Laurence Prust and Investec Securities.

Directors' Report

The Directors present their Report and financial statements for the year ended 30 June 2012.

Principal activities

The principal activities of the Company and its subsidiaries during the year were the development and sale of proprietary software and provision of computer consultancy services.

Review of the business and prospects

A full review of the operations, financial position and prospects of the Group is given in the Chairman's Statement and Chief Executive's Summary on pages 1 to 2.

Results and dividends

Details of the results for the year are given on page 11. The Directors do not recommend the payment of a dividend. (2011: £Nil).

Key performance indicators (KPIs)

The Directors monitor the business using management reports and information, reviewed and discussed at monthly Board meetings. Financial and non-financial KPIs used in this report include:

- subscription, software development and consultancy revenues
- revenue and overhead variations against budget
- technical development (e.g. project updates and progress)
- personnel matters

As noted in the group income statement on page 11, revenue for the year has increased by 14% (2011 – 20%), distribution and administrative costs decreased by 2% (2011 – increased by 6%), whilst the loss for the year before taxation from continuing activities has decreased by 27% (2011 – 12%). The loss per share from continuing operations has decreased by 25% (2011 – 43%).

Principal risks and uncertainties

The Group's performance is affected by a number of risks and uncertainties, which the Board monitor on an ongoing basis in order to identify, manage and minimise their possible impact. General risks and uncertainties include changes in economic conditions, interest rate fluctuations and the impact of competition. The Group's principal risk areas and the action taken to mitigate their outcome are shown below:

Risk area	Mitigation
Competition	Ongoing investment in R&D Responding to the changing needs of clients to remain competitive
Loss of key personnel	Keyman insurance policies held for certain senior management Employee share option scheme in place

Directors

The Directors who have held office during the period from 1 July 2011 to the date of this report are as follows:

Richard Last
Andrew Miller
Michael Levy
Louise Barton

In accordance with the Company's Articles of Association, Louise Barton, who retires by rotation, offers herself for re-election.

Directors' Report (continued)

Directors (continued)

Except as disclosed in note 22 to the financial statements none of the Directors had an interest in any contracts with the Company or its subsidiaries during the year.

Employees

The Directors recognise the importance of good communication with employees to ensure a common awareness of factors affecting the Group. They also recognise their statutory responsibilities. Matters of current concern or interest are discussed with staff on a regular basis.

Corporate Governance

The Company's shares are traded on AIM, a market operated by the London Stock Exchange and the Company is not, therefore, required to report on compliance with the UK Corporate Governance Code ("the Code"). However, the Board of Directors support the Code and also the recommendations made by Quoted Companies Alliance in its bulletin "Corporate Governance Guidelines for Smaller Quoted Companies". The bulletin provides a series of recommendations for smaller quoted companies in approaching the question of corporate governance which the Company has complied with where it is considered justified as being relevant to a business of this size.

Internal control

The Directors acknowledge their responsibilities for the Group's system of internal control. The Board considers major business and financial risks. All strategic decisions are referred to the Board, which meets monthly, for approval. Accepting that no system of control can provide absolute assurance against material misstatement or loss, the Directors believe that the established systems of internal control within the Group are appropriate to the business.

Financial risk management

The Group's financial instruments comprise cash and cash equivalents, and items such as trade payables and trade receivables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate fluctuations and liquidity risk. It is the Group's policy to finance its operations through a mixture of cash and, where appropriate, external finance and to review the projected cash flow requirements of the Group with an acceptable level of risk exposure.

Going concern

On the basis of current projections and having regard to the facilities available to the Group, the Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly the Directors have adopted the going concern basis in the preparation of the financial statements.

Supplier payment policy

The Group's policy is to settle the terms of payment with suppliers when agreeing the terms of each transaction, and to ensure that suppliers are made aware of the terms of payment and abide by them. At 30 June 2012, the average trade payables for the Group, expressed as a number of days, were 48 days (2011: 48 days).

Research and Development

The Group continues to make progress in product development, while continuing to keep control of costs. Research and development expenditure is charged to the income statement in the year incurred, unless it meets the criteria under IAS 38 to capitalise.

Directors' Report (continued)

Disclosures to auditors

In the case of each of the persons who are Directors at the time when the report is approved, the following applies:

- so far as each of the Directors are aware, there is no relevant audit information of which the Company's auditors are unaware; and

- each of the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This information is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Auditors

A resolution to re-appoint Nexia Smith & Williamson will be proposed at the annual general meeting.

On behalf of the Board

Michael Levy
Company Secretary

2 August 2012

Statement of Directors’ Responsibilities

The Directors are responsible for preparing the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the group and of the profit or loss of the group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business;

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company’s website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the members of Arcontech Group PLC

We have audited the financial statements of Arcontech Group PLC for the year ended 30 June 2012 which comprise the Group Income Statement, the Group and Parent Company Statement of Changes in Equity, the Group and Parent Company Balance Sheets, the Group and Parent Company Cash Flow Statements and the related notes 1 to 30. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the APB's website at
www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements
In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 30 June 2012 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent Auditor's Report to the members of Arcontech Group PLC

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Jonathan Talbot
Senior Statutory Auditor, for and on behalf of

Nexia Smith & Williamson
Statutory Auditor
Chartered Accountants
Portwall Place
Portwall Lane
Bristol
BS1 6NA

2 August 2012

Group Income Statement

For the year ended 30 June 2012

	Note	2012 £	2011 £
Revenue	3	1,463,530	1,287,409
Distribution costs		(19,477)	(16,428)
Administrative costs		(2,039,200)	(2,088,836)
Operating loss	4	(595,147)	(817,855)
Finance income		8,756	13,134
Loss before taxation		(586,391)	(804,721)
Taxation	8	85,319	132,683
Loss for the year after tax		(501,072)	(672,038)
Total comprehensive income		(501,072)	(672,038)
Loss per share (basic and diluted)	9	(0.03)p	(0.04)p

All of the results relate to continuing operations.

The notes on pages 16 to 38 form part of these financial statements

Statement of Changes in Equity

For the year ended 30 June 2012

Group:

	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
Balance at 1 July 2010	1,531,315	9,428,169	143,297	(8,300,747)	2,802,034
Loss for the year	-	-	-	(672,038)	(672,038)
Total comprehensive income for the year	-	-	-	(672,038)	(672,038)
Share-based payments	-	-	2,241	-	2,241
Balance at 30 June 2011	1,531,315	9,428,169	145,538	(8,972,785)	2,132,237
Loss for the year	-	-	-	(501,072)	(501,072)
Total comprehensive income for the year	-	-	-	(501,072)	(501,072)
Share-based payments	-	-	45,222	-	45,222
Balance at 30 June 2012	1,531,315	9,428,169	190,760	(9,473,857)	1,676,387

Company:

	Share capital £	Share premium £	Share option reserve £	Retained earnings £	Total equity £
Balance at 1 July 2010	1,531,315	9,428,169	143,297	(7,447,378)	3,655,403
Loss for the year	-	-	-	(82,460)	(82,460)
Total comprehensive income for the year	-	-	-	(82,460)	(82,460)
Share-based payments	-	-	2,241	-	2,241
Balance at 30 June 2011	1,531,315	9,428,169	145,538	(7,529,838)	3,575,184
Loss for the year	-	-	-	(35,850)	(35,850)
Total comprehensive income for the year	-	-	-	(35,850)	(35,850)
Share-based payments	-	-	45,222	-	45,222
Balance at 30 June 2012	1,531,315	9,428,169	190,760	(7,565,688)	3,584,556

The notes on pages 16 to 38 form part of these financial statements.

Balance Sheets
Registered number: 4062416

As at 30 June 2012

	Note	Group 2012 £	Group 2011 £	Company 2012 £	Company 2011 £
Non-current assets					
Goodwill	10	1,715,153	1,715,153	-	-
Property, plant and equipment	11	34,263	37,426	-	-
Investments in subsidiaries	12	-	-	2,017,373	2,017,373
Total non-current assets		1,749,416	1,752,579	2,017,373	2,017,373
Current assets					
Trade and other receivables	13	667,637	366,425	1,845,027	1,450,431
Cash and cash equivalents	14	746,675	841,204	37,595	471,172
Total current assets		1,414,312	1,207,629	1,882,622	1,921,603
Current liabilities					
Trade and other payables	15	(1,487,341)	(827,971)	(315,439)	(363,792)
Total current liabilities		(1,487,341)	(827,971)	(315,439)	(363,792)
Net current (liabilities)/assets		(73,030)	379,658	1,567,183	1,557,811
Net assets		1,676,387	2,132,237	3,584,556	3,575,184
Equity					
Called up share capital	17	1,531,315	1,531,315	1,531,315	1,531,315
Share premium account	18	9,428,169	9,428,169	9,428,169	9,428,169
Share option reserve	24	190,760	145,538	190,760	145,538
Retained earnings		(9,473,857)	(8,972,785)	(7,565,688)	(7,529,838)
		1,676,387	2,132,237	3,584,556	3,575,184

Approved on behalf of the board on 2 August 2012 by:

Andrew Miller
Chief Executive

Michael Levy
Group Finance Director

The notes on pages 16 to 38 form part of these financial statements.

Group Cash Flow Statement

For the year ended 30 June 2012

	Note	2012 £	2011 £
Net cash used in operating activities	20	**(90,351)**	**(747,493)**
Investing activities			
Interest received		8,756	13,134
Purchases of plant and equipment		(12,934)	(11,214)
Disposal of plant and equipment		-	401
Net cash (used)/received in investing activities		**(4,178)**	**2,321**
Net decrease in cash and cash equivalents		**(94,529)**	**(745,172)**
Cash and cash equivalents at beginning of year		841,204	1,586,376
Cash and cash equivalents at end of year	14	**746,675**	**841,204**

The notes on the pages 16 to 38 form part of these financial statements.

Company Cash Flow Statement

For the year ended 30 June 2012

	Note	2012 £	2011 £
Net cash used in operating activities	20	**(435,926)**	**(395,785)**
Investing activities			
Interest received		2,349	7,579
Net cash generated from investing activities		**2,349**	**7,579**
Net decrease in cash and cash equivalents		**(433,577)**	**(388,206)**
Cash and cash equivalents at beginning of year		471,172	859,378
Cash and cash equivalents at end of year	14	**37,595**	**471,172**

The notes on the pages 16 to 38 form part of these financial statements.

Notes to the Financial Statements

For the year ended 30 June 2012

1. Accounting policies

The principal accounting policies are summarised below. They have all been applied consistently throughout the period covered by these financial statements.

Reporting entity

Arcontech Group PLC ("the Company") is a company incorporated in the United Kingdom. The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries (together referred to as "the Group").

Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") endorsed by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

On the basis of current projections, confidence of future profitability and cash balances held, the Directors have adopted the going concern basis in the preparation of the financial statements.

The financial statements have been prepared under the historical cost convention.

Effect of new IFRS and changes to IFRS

A number of standards, interpretations and amendments to existing standards are applicable for the first time in the year however none of these had an effect on the results of the Group.

Standards, interpretations and amendments to existing standards that have been published, and are mandatory to accounting periods beginning on or after 1 July 2012 or later periods and that have not been early adopted by the Group or the Company include the following:

- IFRS 9: Financial Instruments (not yet EU adopted) – project to replace IAS 39 on recognition and measurement of financial instruments
- IFRS 10 (not yet EU adopted) – revision to accounting for groups to provide additional guidance on when and how to consolidate group interests and related disclosures.
- IFRS 13: Fair value measurement (not yet EU adopted) – establishes a new framework for how to measure fair value under IFRS but does not extend when fair value should be used.

A number of other interpretations and amendments to existing standards have been made by the IASB and IFRIC but are not considered relevant to the Group's operations.

There is no material effect expected of the above new standards and amendments on the reported results of the Group and Company.

Additional disclosures will be made to comply with the requirements of the new standards when implemented.

Notes to the Financial Statements

For the year ended 30 June 2012

1. Accounting policies (continued)

Basis of consolidation

The Group financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared to 30 June 2012. Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Business combinations and goodwill

On acquisition, the assets and liabilities and contingent liabilities of subsidiaries are measured at their fair value at the date of acquisition. Any excess of cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to the income statement in the period of acquisition. Goodwill arising on consolidation is recognised as an asset and reviewed for impairment at least annually. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts, VAT and other sales related taxes.

Revenue arising from the provision of services is recognised when and to the extent that the Group obtains the right to consideration in exchange for the performance of its contractual obligations as follows:

Licence fee income – recognised evenly over the contracted licence period.

Support and maintenance income – recognised evenly over the contract term.

Consultancy, advertising and sponsorship income – recognised in line with the performance of the contract.

Taxation

The tax charge/(credit) represents the sum of the tax payable/(receivable) and any deferred tax.

The tax payable/(receivable) is based on the taxable result for the year. The taxable result differs from the net result as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using tax rates that have been enacted or substantially enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

1. Accounting policies (continued)

Taxation (continued)

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised. Deferred tax is charged or credited to the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current assets and liabilities on a net basis.

Share-based payments

The cost of share-based employee compensation arrangements, whereby employees receive remuneration in the form of shares or share options, is recognised as an employee benefit expense in the income statement.

The total expense to be apportioned over the vesting period of the benefit is determined by reference to the fair value (excluding the effect of non market-based vesting conditions) at the date of grant. Fair value is measured by the use of the Black-Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of the non-transferability, exercise restrictions and behavioural considerations. A cancellation of a share award by the Group or an employee is treated consistently, resulting in an acceleration of the remaining charge within the consolidated income statement in the year of cancellation.

Impairment of tangible and intangible assets

The carrying amounts of the Group's and Company's tangible and intangible assets are reviewed at each year end date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated.

For goodwill the recoverable amount is estimated at each year end date, based on value in use. The recoverable amount of other assets is the greater of their net selling price and value in use.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

An impairment loss is recognised in the income statement whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro rata basis.

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

1. Accounting policies (continued)

Impairment of tangible and intangible assets (continued)

A cash generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of assets, over their estimated useful lives, on the following bases:

Leasehold property	- over the period of the lease
Computer equipment	- 33% - 40% on cost
Office furniture and equipment	- 20% - 25% on reducing balance

Investments in subsidiaries

Investments in subsidiaries are stated at cost less any provision for impairment.

Financial instruments

Financial assets and financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Financial liabilities and equity instruments issued by the Group are classified in accordance with the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Trade and other receivables

Trade and other receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest method. A provision is established when there is objective evidence that the Group will not be able to collect all amounts due. The movement on any provision is recognised in the income statement.

Trade and other payables

Trade and other payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less.

Leasing commitments

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the relevant lease.

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

1. Accounting policies (continued)

Research and development

Research costs are charged to the income statement in the year incurred. Development expenditure is capitalised to the extent that it meets all of the criteria required by IAS 38, otherwise it is charged to the income statement in the year incurred.

Pension costs and other post-retirement benefits

The Group makes payments to employees' personal pension schemes. Contributions payable for the year are charged in the income statement.

Foreign currencies

Transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling when the transaction was entered into. Foreign currency monetary assets and liabilities are translated into sterling at the exchange rate ruling at the balance sheet date. Exchange gains or losses are included in operating profit.

2. Critical accounting judgements and key sources of estimation uncertainty

The preparation of financial statements in conformity with generally accepted accounting practice requires management to make estimates and judgements that affect the reported amounts of assets and liabilities as well as the disclosure of contingent assets and liabilities at the balance sheet date and the reported amounts of revenues and expenses during the reporting period.

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting judgements:

Share-based payments

In determining the fair value of equity settled share-based payments and the related charge to the income statement, the Group makes assumptions about future events and market conditions. In particular, judgement must be made as to the likely number of shares that will vest, and the fair value of each award granted. The fair value is determined using a valuation model which is dependent on further estimates, including the Group's future dividend policy, the timing with which options may be exercised and the future volatility in the price of the Group's shares. Such assumptions are based on publicly available information and reflect market expectations and advice taken from qualified personnel. Different assumptions about these factors to those made by the Group could materially affect the reported value of share-based payments.

Key sources of estimation uncertainty:

Bad debt provisions

The trade receivables balances recorded in the Group's balance sheet comprise a relatively small number of large balances. A full line by line review of trade receivables is carried out at the end of each month. Whilst every attempt is made to ensure that the bad debt provisions are as accurate as possible, there remains a risk that the provisions do not match the level of debts which ultimately prove to be uncollectible.

No provision for bad debts was made at the balance sheet date (2011: £Nil) and the carrying value of trade receivables at the balance sheet date was £540,182 (2011: £168,108).

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

2. Critical accounting judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued):

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. No provision for impairment was made in the year and the carrying value of goodwill at the balance sheet date was £1,715,153 (2011: £1,715,153) (*see note 10*).

3. Revenue

An analysis of the Group's revenue is as follows:

	2012 £	2011 £
Financial information service, advertising and sponsorship, software development and consultancy	1,463,530	1,287,409

All of the Group's revenue relates to continuing activities.

4. Operating loss for the year is stated after charging:

	2012 £	2011 £
Depreciation of plant and equipment	15,552	16,893
Loss on disposal of fixed assets	545	3,091
Staff costs (*see note 7*)	1,408,153	1,473,442
Operating lease rentals - land and buildings (*see note 21*)	79,000	73,075
Research and development	669,400	812,559

5. Auditor's remuneration:

	2012 £	2011 £
Fees payable to the Group's auditor for the audit of the Group's annual accounts	21,000	20,500
Fees payable to the Group's auditor for other services:		
- audit of the Company's subsidiaries, pursuant to legislation	8,500	8,500
- relating to taxation	-	2,725

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

6. Operating segments:

For management purposes, the Group is currently organised into two main operating divisions by product group: Financial information service, advertising and sponsorship (Arcontech Solutions Limited) and software development and consultancy (Arcontech Limited and Arcontech Pte. Ltd.). These divisions are the operating segments for which the Group reports internally to the Chief Operating Decision Maker (CODM), who is considered to be the Board. Intersegment license fees and management charges are not included in the reports reviewed by the CODM during the year but are calculated for statutory reporting purposes and therefore are excluded from the following revenue and operating (loss)/profit disclosures.

	2012 £	2011 £
Revenue by segment		
Financial information service, advertising and sponsorship	-	-
Software development and consultancy	1,463,530	1,287,409
External segment revenue	1,463,530	1,287,409
Operating loss by segment		
Financial information service, advertising and sponsorship	-	(127,553)
Software development and consultancy	(298,758)	(395,519)
Unallocated overheads	(296,389)	(294,783)
Total operating loss	(595,147)	(817,855)
Finance income	8,756	13,134
Total loss before tax as reported in the Group income statement	(586,391)	(804,721)

	2012 £	2011 £
Segment total of assets		
Financial information service, advertising and sponsorship	624,592	382,443
Software development and consultancy	3,403,625	2,944,222
Unallocated assets	1,940,912	1,921,651
	5,969,129	5,248,316
Less inter segment debtors	(2,805,401)	(2,288,108)
Total assets	3,163,728	2,960,208

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

6. Operating segments (continued):

	2012	**2011**
	£	**£**
Segment total liabilities		
Financial information service, advertising and sponsorship	147,058	20,980
Software development and consultancy	3,829,160	2,731,307
Unallocated liabilities	316,524	363,792
	4,292,742	3,116,079
Less inter segment creditors	(2,805,401)	(2,288,108)
Total liabilities	1,487,341	827,971

	2012	**2011**
	£	**£**
Additions of property, plant and equipment assets by segment		
Software development and consultancy	12,934	11,214
Total additions	12,934	11,214

	2012	**2011**
	£	**£**
Depreciation of property, plant and equipment assets recognised in the period by segment		
Financial information service, advertising and sponsorship	5,416	8,667
Software development and consultancy	10,136	8,226
Total depreciation	15,552	16,893

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

6. Operating segments (continued):

External revenue by country	**2012**	**2011**
	£	**£**
UK	743,957	664,984
Singapore	334,154	445,539
Denmark	164,737	106,361
USA	99,512	34,575
Germany	45,821	17,148
Belgium	27,983	12,202
Rest of the World	47,366	6,600
	1,463,530	1,287,409

During the year there were 2 customers (2011: 1) who accounted for more than 10% of the Group's revenues as follows:

	2012		**2011**	
	Value of sales £	**% of Total**	**Value of sales £**	**% of Total**
Customer 1	408,012	28%	100,120	8%
Customer 2	334,154	23%	445,539	35%
	742,166	**51%**	**545,659**	**43%**

These revenues are attributable to the software development and consultancy segment.

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

7. Staff costs:

	2012	2011
	£	**£**
a) Aggregate staff costs, including Directors' remuneration		
Wages and salaries	1,184,177	1,289,107
Social security costs	144,754	149,694
Pension contributions	34,000	32,400
Share-based payments	45,222	2,241
	1,408,153	1,473,442

b) The average number of employees (including executive Directors) was:		
Sales and administration	20	23

	£	**£**
c) Directors' emoluments		
Short-term employee benefits	141,374	167,927
Post-employment benefits	22,000	5,500
Share-based payments	15,267	-
	178,641	173,427

		£	**£**
Executive Directors			
Michael Levy	- emoluments*	20,000	20,000
	- share-based payments	3,935	-
Andrew Miller	- emoluments	97,374	123,927
	- contributions to pension scheme	22,000	5,500
	- share-based payments	6,610	-
Non-Executive Directors			
Richard Last	- emoluments	24,000	24,000
	- share-based payments	4,722	-
Louise Barton	- emoluments	-	-
		178,641	173,427

The number of Directors that are members of a defined contribution pension scheme is 1 (2011: 1).

*Fees payable to Michael Levy & Co, Chartered Accountants, in which Michael Levy is the principal, in respect of accountancy services are disclosed in note 22.

Key management personnel

In the opinion of the Board, the Group's key management are the Directors of Arcontech Group PLC. Social security costs relating to Directors was £17,178 (2011: £18,499).

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

8. Taxation

	2012 £	2011 £
Current tax	85,319	132,683
Deferred tax	-	-
Total tax credit for the year	85,319	132,683

The difference between the total tax credit shown above and the amount calculated by applying the standard rate of UK corporation tax to the loss before tax is as follows:

	2012 £	2011 £
Loss on ordinary activities before tax	(586,391)	(804,721)
Loss on ordinary activities multiplied by the standard rate of corporation tax in the UK of 25.5% (2011: 27.5%)	(149,530)	(221,298)
Effects of:		
Disallowed expenses	7,425	6,324
Temporary differences on deferred tax not recognised	(3,966)	(2,481)
Singapore taxable (loss)/profit/loss at lower tax rate	(6,997)	5,324
Loss on sale of fixed assets	139	850
Research and development tax credits	85,319	132,683
Losses carried forward	152,929	211,281
Total tax credit for the year	85,319	132,683

Factors which may affect future tax charges

At 30 June 2012 the Group has tax losses of approximately £10,000,000 (2011: £9,400,000) to offset against future trading profits.

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

9. Loss per share

	2012	2011
	£	£
Earnings		
Earnings for the purpose of basic and diluted earnings per share being net loss attributable to equity shareholders	(501,072)	(672,038)
	(501,072)	(672,038)

	No.	No.
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	1,531,314,870	1,531,314,870
Number of dilutive shares under option	-	-
Weighted average number of ordinary shares for the purposes of dilutive earnings per share	1,531,314,870	1,531,314,870

The calculation of diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, all of which arise from share options. A calculation is done to determine the number of shares that could have been acquired at fair value, based upon the monetary value of the subscription rights attached to outstanding share options. Share options are anti-dilutive and are therefore not included above.

10. Goodwill

	2012	2011
	£	£
Cost and net book amount		
At 1 July 2011 and at 30 June 2012	1,715,153	1,715,153

Goodwill acquired in a business combination is allocated at acquisition, to the cash generating units (CGUs) that are expected to benefit from that business combination. The carrying amount of goodwill has been allocated as follows:

	2012	2011
	£	£
Arcontech Limited	1,715,153	1,715,153
Arcontech Pte. Ltd.	-	-
	1,715,153	1,715,153

The CGUs used in these calculations are Arcontech Limited and Arcontech Pte. Ltd., which should be considered together. The group tests goodwill annually for impairment or more frequently if there are indications that goodwill might be impaired. The recoverable amounts of the CGUs are determined from value in use calculations. The key assumptions for the value in use calculations are those regarding the discount rates, growth rates and expected changes to selling prices and direct costs during the period. The discount rate is estimated using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGUs. Long-term growth rates are based on industry growth forecasts. Changes in selling prices are based on past practices and expectations of future changes in the market. Changes in direct costs are based on expected cost of inflation of 2.5%.

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

10. Goodwill (continued)

Cashflow forecasts are based on the latest financial budgets and extrapolate the cashflows for the next five years based on an estimated growth in revenue representing an average rate of 14% (2011: 15%) per annum, after which the UK long-term growth rate is applied. The Directors consider that this rate is appropriate, given the significant new contracts achieved during the year, which resulted in an increase of 3% (2011: 42%) in contracted recurring revenues together with those currently in negotiation anticipated to start in 2013. Growth in revenue is the most sensitive of assumptions. Should this fall below an average of 11 % then this could result in the value of goodwill being impaired.

As the Group does not have any borrowings, the rate used to discount all the forecast cash flows is 12.6% (2011: 12.6%), which represents the Group's cost of capital.

Goodwill on the purchase of Arcontech Limited is attributable to the anticipated future operating synergies which will arise as a result of the combination.

11. Property, plant and equipment - Group

Cost	**Leasehold Property £**	**Office furniture & equipment £**	**Total £**
At 1 July 2010	6,373	245,212	251,585
Additions	3,676	7,538	11,214
Disposals	-	(39,987)	(39,987)
At 1 July 2011	10,049	212,763	222,812
Additions	-	12,934	12,934
Disposals	-	(4,337)	(4,337)
At 30 June 2012	10,049	221,360	231,409
Depreciation			
At 1 July 2010	6,103	198,885	204,988
Charge for the year	860	16,033	16,893
On disposals	-	(36,495)	(36,495)
At 1 July 2011	6,963	178,423	185,386
Charge for the year	788	14,764	15,552
On disposals	-	(3,792)	(3,792)
At 30 June 2012	7,751	189,395	197,146
Net book amount at 30 June 2012	2,298	31,965	34,263
Net book amount at 30 June 2011	3,086	34,340	37,426

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

12. Investment in subsidiaries

	2012	2011
	£	£
Carrying amount		
At 1 July 2011	2,017,373	2,017,372
Additions	-	-
At 30 June 2012	2,017,373	2,017,372

Details of the investments in which the Group and the Company holds 20% or more of the nominal value of any class of share capital are as follows:

	Country of Incorporation	Nature of business	% voting rights and shares held
Arcontech Solutions Limited	England and Wales	Provision of financial information services	100% of Ordinary shares
Cognita Technologies Limited	England and Wales	Software development	100% of Ordinary shares
Arcontech Limited	England and Wales	Software development and consultancy	100% of Ordinary shares
Arcontech Pte. Ltd.	Singapore	Software development and consultancy	100% of Ordinary shares

13. Trade and other receivables

	Group 2012	Group 2011	Company 2012	Company 2011
	£	£	£	£
Due within one year:				
Trade receivables	540,182	168,108	-	-
Amounts owed by group undertakings	-	-	1,837,372	1,433,262
Other receivables	24,661	5,086	3,441	3,720
Prepayments and accrued income	102,794	193,231	4,214	13,449
	667,637	366,425	1,845,027	1,450,431

Trade receivables, other receivables and accrued income constitute the financial assets within the category "Loans and receivables" as defined by IAS 39 with a total value of £564,843 (2011: £173,194). Trade receivables are non-interest bearing and generally have a 30-90 day term. Due to their short maturities, the fair value of trade receivables approximates their book value.

A provision for impairment of trade receivables is established when there is no objective evidence that the Group will be able to collect all amounts due according to the original terms. The Group considers factors such as default or delinquency in payment, significant financial difficulties of the debtor and the probability that the debtor will enter bankruptcy in deciding whether the trade receivable is impaired. Trade and other receivables are disclosed net of allowances for bad and doubtful debts.

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

13. Trade and other receivables (continued)

As at 30 June 2012, trade receivables of £Nil were impaired (2011: £Nil). As at 30 June 2012 trade receivables of £16,580 (2011: £103,538) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	Group 2012 £	Group 2011 £	Company 2012 £	Company 2011 £
Up to 3 months past due	16,580	54,869	-	-
Over 3 months past due	-	48,669		-
	16,580	103,538	-	-

Other receivables do not contain impaired assets.

The Directors consider that there has been no deterioration in the credit quality of debts which are past due.

14. Cash and cash equivalents

Cash and cash equivalents comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

15. Trade and other payables

	Group 2012 £	Group 2011 £	Company 2012 £	Company 2011 £
Trade payables	87,247	121,817	14,803	1,415
Amounts owed to group undertakings	-	-	262,879	323,683
Other tax and social security payable	55,446	51,218	7,532	7,511
Other payables and accruals	212,754	135,395	30,225	31,183
Deferred income	1,131,894	519,541	-	-
	1,487,341	827,971	315,439	363,792

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

Trade payables and other payables and accruals constitute the financial liabilities within the category "Financial liabilities at amortised cost" as defined by IAS 39 with a total value of £300,046 (2011: £257,212).

16. Deferred tax

There is no actual or potential liability for deferred taxation due to the availability of losses, which at 30 June 2012 amounted to approximately £10,000,000 (2011: £9,400,000). The unprovided deferred tax asset at 30 June 2012 was £2,400,000 (2011: £2,460,000).

Currently the criteria for the recognition of a deferred tax asset have not been met and accordingly a deferred tax asset has not been included in the balance sheet as at 30 June 2012 and as at 30 June 2011.

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

16. Deferred tax (continued)

Finance Bill 2012 included proposals to reduce the main rate of corporation tax from 26% to 24% from 1 April 2012, and to 23% from 1 April 2013. The decrease to 24% was substantially enacted in a budget resolution on 26 March 2012 and the impact of this change has been reflected in the above deferred tax balances.

The reduction to 23% and a further decrease to 22% from 1 April 2014 are yet to be enacted. The full anticipated effect of these proposed changes combined with any reductions to the rates of capital allowances is not considered material.

17. Share capital

	2012 £	2011 £
Company		
Allotted and fully paid:		
1,531,314,870 Ordinary Shares of 0.1p each	1,531,315	1,531,315

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

17. Share capital (continued)

Share options and warrants

Under the Company's approved 2002 Share Option Scheme, certain Directors and employees held options at 30 June 2012 for unissued Ordinary Shares of 0.1 pence each as follows:

Share options	At 1 July 2011	Granted	Exercised	Lapsed	At 30 June 2012	Exercise price	Normal exercise period
Employees:	12,724,359	-	-	2,179,488	10,544,871	0.78 pence	20 Dec 09 – 19 Dec 13
	1,000,000	-	-	-	1,000,000	0.175 pence	18 Mar 11– 17 Mar 15
	5,000,000	-	-	1,000,000	4,000,000	0.125 pence	17 Sep 12 – 16 Sep 16
	-	70,714,287	-	-	70,714,287	0.14 pence	18 Oct 13 – 17 Oct 17
Directors:							
Andrew Miller	4,444,444	-	-	-	4,444,444	0.9 pence	20 Dec 09 – 19 Dec 13
	-	16,666,667	-	-	16,666,667	0.14 pence	18 Oct 13 – 17 Oct 17
Michael Levy	1,851,852	-	-	-	1,851,852	0.9 pence	20 Dec 09 – 19 Dec 13
	-	9,920,635	-	-	9,920,635	0.14 pence	18 Oct 13 – 17 Oct 17
Richard Last	2,777,778	-	-	-	2,777,778	0.9 pence	20 Dec 09 – 19 Dec 13
	-	11,904,762	-	-	11,904,762	0.14 pence	18 Oct 13 – 17 Oct 17
	27,798,433	109,206,351	-	3,179,488	133,825,296		
Weighted average exercise price	0.68 pence	0. 14 pence	- pence	0.57 pence	0.24 pence		

The number of options exercisable at 30 June 2012 was 24,618,945 (At 30 June 2011: 22,798,433), these had a weighted average exercise price of 0.69 pence (2011: 0.80 pence).

Options granted under the Company's approved 2002 Share Option Scheme lapse when the Optionholder ceases to be a Director or employee of a Participating Company. The Directors may before the expiry of 3 months following cessation of employment permit an Optionholder to exercise their Option within a period ending no later than 12 months from the cessation of employment.

In the case of the warrant instruments, Ordinary Shares resulting from the exercise of any such rights will rank pari passu in all respects with the Ordinary Shares in issue at the time of exercise.

The highest price of the Company's shares during the year was 0.19p, the lowest price was 0.08p and the price at the year-end was 0.105p.

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

17. Share capital (continued)

Share options and warrants (continued)

The weighted average remaining contractual life of share options outstanding at 30 June 2012 was 4.04 years (2011: 3.02 years)

18. Reserves

Details of the movements in reserves are set out in the Statement of Changes in Equity. A description of each reserve is set out below.

Share premium account

This is used to record the aggregate amount or value of premiums paid when the Company's shares are issued at a premium, net of issue costs.

Share option reserve

This relates to the fair value of options granted which has been charged to the income statement over the vesting period of the options.

Retained earnings

This relates to accumulated losses.

19. Income statement

The Company has taken advantage of the exemption provided under section 408 of the Companies Act 2006 not to publish its individual income statement and related notes. The loss dealt with in the financial statements of the Parent Company was £35,850 (2011: £82,460).

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

20. Net cash used in operations - Group

	2012 £	2011 £
Operating loss	(595,147)	(817,855)
Depreciation charge	15,552	16,893
Non cash share option charges	45,222	2,241
Increase in trade and other receivables	(301,212)	(152,504)
Increase in trade and other payables	659,370	67,958
Loss on disposal of plant and equipment	545	3,091
Cash used in operations	(175,670)	(880,176)
Tax recovered	85,319	132,683
	(90,351)	(747,493)

Net cash used in operations - Company

	2012 £	2011 £
Operating loss	(38,199)	(90,039)
Non cash share option charges	45,222	2,241
Increase in trade and other receivables	(394,596)	(193,195)
Decrease in trade and other payables	(48,353)	(114,792)
Cash used in operations	(435,926)	(395,785)

21. Operating lease commitments

At the year-end date the Group has lease agreements in respect of property for which the payments extend over a number of years. The commitments fall due as follows:

	Group 2012 £	Group 2011 £	Company 2012 £	Company 2011 £
Land and buildings:				
Due within one year	79,000	79,000	-	-
Due between two and five years	151,417	230,417	-	-
	230,417	309,417	-	-

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

22. Related party transactions

Group

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Key management compensation

Key management are those persons having authority and responsibility for planning, controlling and directing the activities of the Group. In the opinion of the Board, the Group's key management are the Directors of Arcontech Group PLC. Information regarding their compensation is given in notes 7 and 17 for each of the categories specified in IAS 24 *Related Party Disclosures*. All emoluments given in notes 7 and 17 relate to short-term employee benefits and there are no post-employment or other long-term benefits.

The financial statements include the following amounts in respect of services provided to the Group:

Michael Levy:
Fees payable to Michael Levy & Co, Chartered Accountants, in which Michael Levy is the principal, in respect of accountancy services of £46,796 (2011: £41,291). At 30 June 2012 the amount outstanding was £Nil (2011: £Nil).

Company

Transactions between the Parent Company and its subsidiaries during the year were as follows:

Management charges payable by subsidiaries £264,704 (2011: £272,745).

The amounts due from/to subsidiaries at the balance sheet date were as follows:

	2012 £	2011 £
Amount due from subsidiaries	8,030,642	7,617,282
Less: Provision for impairment	(6,193,270)	(6,184,020)
Amount due from subsidiaries - net	1,837,372	1,433,262

During the year a provision of £9,250 was made (2011: £69,435) in respect of balances due from subsidiaries.

	2012 £	2011 £
Amount due to subsidiaries	262,879	323,683
Less: Provision for impairment	-	-
Amount due to subsidiaries - net	262,879	323,683

23. Dividends

There were no dividends paid or proposed during the period (2011: £Nil).

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

24. Share-based payments

The Group operates an approved Share Option Scheme for the benefit of Directors and employees. Options are granted to acquire shares at a specified exercise price at any time following but no later than 6 years after the grant date. There are no performance conditions on the exercise of the share options. Outstanding options granted under the Scheme are disclosed in note 17.

Options granted under the Scheme lapse when the Optionholder ceases to be a Director or employee of a Participating Company. The Directors may before the expiry of 3 months following cessation of employment permit an Optionholder to exercise their Option within a period ending no later than 12 months from the cessation of employment.

The fair value of options is valued using the Black-Scholes pricing model. An expense of £45,222 (2011: £2,241) has been recognised in the period in respect of share options granted. The cumulative share option reserve at 30 June 2012 is £190,760 (2011: £145,538). The inputs into the Black-Scholes pricing model are as follows:

	30 June 2012 Directors	30 June 2012 Employees	30 June 2011 Directors	30 June 2011 Employees
Exercise price	0.9/0.14 pence	0.78/0.175/0.125/0.14 pence	0.9 pence	0.78/0.175/0.125 pence
Expected life	6 years	6 years	6 years	6 years
Expected volatility	100%	100%	100%	100%
Risk free rate of interest	5%	5%	5%	5%
Dividend yield	Nil	Nil	Nil	Nil
Weighted average share price	0.74/0.12 pence	0.74/0.175/0.125/0.12 pence	0.74 pence	0.74/0.175/0.125 pence
Fair value of option	0.5851/ 0.1135 pence	0.5961/0.1419/ 0.12/0.1135 pence	0.5851 pence	0.5961/0.1419/ 0.12 pence

Volatility has been estimated based on the historic volatility over a period equal to the expected term from the grant date.

25. Material non-cash transactions

There were no material non-cash transactions during the period.

26. Post balance sheet events

There were no events since the balance sheet date, which materially affect the position of the Group.

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

27. Financial instruments

The Group's financial instruments comprise cash and cash equivalents, and items such as trade payables and trade receivables, which arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations.

The Group's operations expose it to a variety of financial risks including credit risk, liquidity risk and interest rate risk. Given the size of the Group, the Directors have not delegated the responsibility of monitoring financial risk management to a sub-committee of the Board. The policies set by the Board of Directors are implemented by the Company's finance department.

Credit risk

The Group's credit risk is primarily attributable to its trade receivables. The Group has implemented policies that require appropriate credit checks on potential customers before sales are made. The amount of exposure to any individual counterparty is subject to a limit, which is reassessed annually by the Board.

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

	Group 2012 £	**Group 2011 £**	**Company 2012 £**	**Company 2011 £**
Trade receivables	540,182	168,108	-	-
Cash and cash equivalents	746,675	841,204	37,595	471,172
Amounts owed by group undertakings	-	-	1,837,372	1,433,262
	1,286,857	1,009,312	1,874,967	1,904,434

Interest rate risk

The Group has interest bearing assets and no interest bearing liabilities. Interest bearing assets comprise only cash and cash equivalents, which earn interest at a variable rate.

The Group has not entered into any derivative transactions during the period under review.

The Group does not have any borrowings.

The Group's cash and cash equivalents earned interest at variable rates based on bank base rate, between 0% and 1.25% above bank base rate (2011: between 0% and 1.25% above bank base rate).

Liquidity risk

The Group has no short-term debt finance. The Group monitors its levels of working capital to ensure that it can meet its liabilities as they fall due.

The Group's only financial liabilities comprise trade payables and other payables and accruals, excluding deferred income, with a carrying value equal to the gross cash flows payable of £300,046 (2011: £257,212) all of which are payable within 6 months.

Notes to the Financial Statements

For the year ended 30 June 2012 (continued)

27. Financial instruments (continued)

Market risk and sensitivity analysis

Equity price risk

The Directors do not consider themselves exposed to material equity price risk due to the nature of the Group's operations.

Foreign currency exchange risk

The Directors do not consider themselves exposed to material foreign currency risk due to the nature of the Group's operations. All invoices are raised in sterling.

Interest rate risk

The Group is exposed to interest rate risk as a result of positive cash balances, denominated in sterling, which earn interest at a variable rate. As at 30 June 2012, if bank base rate had increased by 0.5% with all other variables held constant, post-tax loss would have been £4,000 (2011: £6,000) lower and equity would have been £4,000 (2011: £6,000) higher. Conversely, if bank base rate had fallen 0.5% with all other variables held constant, post-tax loss would have been £4,000 (2011: £6,000) higher and equity would have been £4,000 (2011: £6,000) lower.

28. Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and maintain an optimal capital structure.

The Group defines capital as being share capital plus reserves. The Board of Directors continually monitors the level of capital.

The Group is not subject to any externally imposed capital requirements.

29. Ultimate controlling party

There is no ultimate controlling party.

30. Copies of this statement

Copies of this statement are available from the Company Secretary at the Company's registered office at 8th Floor Finsbury Tower, 103-105 Bunhill Row, London, EC1Y 8LZ or from the Company's website at www.arcontech.com.

Notice of the Annual General Meeting

ARCONTECH GROUP PLC
Company Number 4062416

NOTICE IS HEREBY GIVEN that the annual general meeting of Arcontech Group PLC (the "**Company**") will be held at the Company's offices, 8th Floor, Finsbury Tower, 103-105 Bunhill Row, London EC1Y 8LZ on 23 October 2012 at 10 a.m. to consider, and if thought fit, pass the following Ordinary and Special Resolutions specified below:

Ordinary Business

1. **THAT** the audited financial statements of the Company for the financial year ended 30 June 2012 together with the reports on those financial statements of (i) the Directors of the Company (the "**Directors**") and (ii) the Auditors of the Company (the "**Auditors**") be received and adopted.

2. **THAT** Nexia Smith & Williamson be reappointed as Auditors to the Company to hold office until the conclusion of the next general meeting at which financial statements are laid before the Company, and that the Directors be authorised to determine their remuneration.

3. **THAT** Louise Barton, who retires by rotation under Article 107 of the Company's Articles of Association and, who being eligible offers herself to be re-elected as Director.

Special Business

THAT the following resolution be considered as an Ordinary Resolution:

4. **THAT** in accordance with section 551 of the Companies Act 2006 ("**2006 Act**"), the Directors of the Company ("**Directors**") be generally and unconditionally authorised to allot shares in the Company or grant rights to subscribe for or to convert any security into shares in the Company ("**Rights**") up to an aggregate nominal amount of £600,000 provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the day falling fifteen months after the passing of this resolution or at the conclusion of the annual general meeting of the Company to be held in the calendar year 2013 (which ever is later) save that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted or Rights to be granted and the Directors may allot shares or grant Rights in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired.

   This authority is in substitution for all previous authorities conferred on the Directors in accordance with section 551 of the 2006 Act.

THAT the following resolution be considered as a Special Resolution:

5. **THAT** subject to the passing of the resolution 4 above and in accordance with section 570 of the 2006 Act, the Directors be generally empowered to allot equity securities (as defined in section 560 of the 2006 Act) pursuant to the authority conferred by resolution 5, as if section 561(1) of the 2006 Act did not apply to any such allotment, provided that this power shall:

5.1 Be limited to the allotment of equity securities up to an aggregate nominal amount of £600,000; and

5.2 Expire on the day falling fifteen months after the passing of this resolution or at the conclusion of the annual general meeting of the Company to be held in the calendar year 2013 (which ever is later) (unless renewed, varied or revoked by the Company prior to or on that date) save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the Directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

By Order of the Board

....
Michael Levy
Secretary

Registered Office:
8th Floor
Finsbury Tower
103-105 Bunhill Row
London
EC1Y 8LZ

2 August 2012

Notice of the Annual General Meeting

Background to the Special Business resolutions

Ordinary Resolution – Resolution 4

Directors may only allot shares if authorised to do so by shareholders. The authority granted at the last Annual General Meeting ("**AGM**") is due to expire at the conclusion of this year's AGM. Therefore, this resolution seeks to grant a new authority to allow authority to allow directors to allot shares until the conclusion of the next AGM or until 15 months from the date of this meeting, whichever is the earlier. The maximum amount of shares which the directors would be able to allot without further authority from shareholders is 600,000,000. It is expected that this amount will be sufficient for the day to day running of the Company.

Special Resolution – Resolution 5

Under the requirements of the 2006 Act, if directors wish to allot any of the unissued shares, they must first offer them to existing shareholders on a pro-rata basis in proportion to their shareholdings. There may be occasions, however where the directors will need the flexibility to finance business opportunities through the issue of shares without a pre-emptive offer to existing shareholders. This resolution asks shareholders to waive the pre-emption rights on shares issued up to a maximum aggregate number of shares of 600,000,000. As with Resolution 4, this authority will expire at the next AGM or within 15 months of the date of this meeting, whichever is the earlier.

Notes:

1. Any member who is entitled to attend and vote at this meeting is entitled to appoint one or more persons as proxies to attend, speak and vote on their behalf. A proxy need not be a member of the Company. You can only appoint a proxy using the procedure set out in these notes and the notes to the proxy form.

2. The Company, pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, specifies that only those members registered in the register of members of the Company at the close of business two days before the meeting or any adjournment thereof, shall be entitled to attend, speak or vote at the meeting in respect of the number of shares registered in their name at the relevant time. Changes to entries in the relevant register of securities later than this shall be disregarded in determining the rights of any person to attend, speak or vote at the meeting. A form of proxy is provided with this notice. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holders name and number of shares in relation to which they authorised to act as your proxy. Please also indicate if the proxy is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope. To be valid, a form of proxy together with any power of attorney or other authority under which it is executed or a copy thereof certified notarially or in accordance with the Power of Attorney Act 1971 or as the Directors shall accept must be lodged with the PXS, 34 Beckenham Road, Beckenham, Kent, BR3 4TU, so as to arrive not later than 48 hours before the start of the meeting. Completion of the form of proxy will not affect the right of a member to attend, speak and vote at the meeting.

3. The register of Directors' share interests will be available for inspection at the meeting convened by this notice, as will the Directors' service contracts.

4. In the case of joint holders, the vote of the senior who tenders a vote, whether in person or by proxy, will be accepted to the exclusion of the votes of the other joint holders and seniority shall be determined by the order in which their names stand on the register of members of the Company.

ARCONTECH GROUP PLC

I/We of being (a) member(s) of the above-named Company hereby appoint the Chairman of the meeting (Note 3) as my/our proxy to vote for me/us on my/our behalf at the annual general meeting to be held on 23 October 2012 at 10 a.m. and at any adjournment thereof.

Dated .... 2012 Signature(s)..

	For	Against	Withheld
1. Ordinary resolution - To receive and adopt the Report of the Directors and the Audited Financial Statements of the Company for the year ended 30 June 2012			
2. Ordinary resolution - To reappoint Nexia Smith & Williamson as Auditors of the Company and to authorise the Directors to fix their remuneration			
3. Ordinary resolution - To re-elect Louise Barton as a Director			
4. Ordinary resolution - Directors' authority to allot shares			
5. Special resolution - Disapplication of pre-emption rights			

Notes

1. Please indicate with an "X" in the appropriate boxes how you wish your proxy to vote. Unless otherwise directed the proxy will vote or abstain as he or she thinks fit.

2. If you do not indicate how you wish your proxy to vote, your proxy will exercise his/her discretion as to whether, and if so how, he/she votes. Your proxy may also vote or abstain from voting as he/she thinks fit on any other business which may properly come before the meeting including on any permissible amendment to the resolutions set out in the notice of meeting.

3. A proxy need not be a member of the Company. A member may appoint a proxy of his/her own choice. If you wish to appoint someone else other than the Chairman as proxy please delete the words "the Chairman of the meeting" and insert the name of the person whom you wish to appoint in the space provided. The Chairman of the meeting will act as your proxy, whether or not such deletion is made, if no other name is inserted.

4. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, copy this form as many times as needed and indicate on each form how many shares are allocated to each proxy appointment.

5. In the case of joint registered holders the signature of one holder on the form of proxy will be accepted by the vote of the senior who tenders a vote whether in person or by proxy to the exclusion of the votes of any joint holders and for this purpose seniority shall be determined by the order in which the names stand in the register of members in respect of such joint holdings.

6. In the case of a corporation the form of proxy must be executed under its common seal or signed on its behalf by a duly authorised attorney or a duly authorised officer of the corporation.

7. Any alteration made to the form of proxy should be initialled.

8. To change your proxy instructions simply submit a new proxy appointment. Note that the cut-off time for receipt of proxy appointments (see below) also applies in relation to amended instructions; any amended proxy appointment received after the cut-off time shall be disregarded. You may contact the Company Secretary of Arcontech Group plc, 8th Floor, Finsbury Tower, 103-105 Bunhill Row, London EC1Y 8LZ to obtain another proxy form. If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence. To revoke a proxy instruction you will need to inform the Company by sending a hard copy notice clearly stating your intention to revoke your proxy appointment to the Company's registrars – PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU by the cut-off time stated below. In the case of a member which is a corporation, the revocation must be executed under its common seal or signed on its behalf by a duly authorised attorney or duly authorised officer of the corporation. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power of attorney) must be included in the revocation notice.

9. This form of proxy should be signed and dated.

10. Completion and return of the form of proxy will not affect the right of a member to attend and vote at the meeting.

11. We have included on the proxy form the ability for a vote to be withheld. A vote withheld is not a vote in law and will not be counted towards the calculation of the proportions of votes "for" or "against".

To be effective, this form of proxy, together with any power of attorney or any other authority (if any) under which it is executed, or a copy of such power of attorney or other authority, certified notarially, must be lodged at the Company's registrars – PXS, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than the close of business two days before the holding of the meeting or adjourned meeting at which it is to be used.

3rd Fold and tuck in

Business Reply
Licence Number
RSBH-UXKS-LRBC

1

PXS
34 Beckenham Road
BECKENHAM
BR3 4TU

2nd Fold

1st Fold

ARCONTECH

Arcontech Group PLC
8th Floor, Finsbury Tower
103-105 Bunhill Row
LONDON EC1Y 8LZ

tel: +44 (0)20 7256 2300
web: www.arcontech.com
email: mail@arcontech.com